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SUBJECT: SENATOR MCCASKILL'S SHANGHAI VISIT

REF: SHANGHAI 118

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1. (SBU) Summary: Senator Claire McCaskill(D-MO) visited Shanghai on March 22-25 and met with Shanghai Deputy Mayor Tang Dengjie and Shanghai Municipal Peoples Congress (SMPC) Deputy Chairman Zhou Yupeng. Deputy Mayor Tang discussed Shanghai's goals of becoming the commercial, trade, finance and logistics center of China. He also supported the idea of establishing a direct air cargo link with centrally-located states, such as Missouri, to increase trade opportunities. In addition, Senator McCaskill met with American Chamber of Commerce (AmCham) Shanghai President Brenda Foster who discussed AmCham Shanghai's status and Shanghai's current business environment. The Senator's discussions with Shanghai Institute for International Studies representatives on Taiwan, Tibet and US-China relations are reported reftel. End Summary.

Shanghai Vice Mayor Tang

2. (SBU) Vice Mayor Tang briefed the Senator on the socio-economic development of Shanghai, noting Shanghai has set the goal of becoming the commercial, trade, finance and logistics center of China. A quarter of all China's imports and exports transit the Port of Shanghai, and the United States is a major trading partner for the city. Shanghai also has over 400 financial institutions and is home to futures, currency and securities exchanges. The city has over 6.8 million visitors each year, many who come for business reasons. There are over 40,000 foreign-invested enterprises in the city, ten percent of which are American. Tang added that Shanghai also attaches great importance to its relations with other countries and municipalities, noting Shanghai's strong sister-city relationship with San Francisco. Shanghai is also gearing up to host some of the soccer preliminary games for the 2008 Summer Olympics and preparing for the 2010 World Expo. Tang noted that the biggest challenge the city faces is managing traffic issues as the city continues to rapidly develop. Environmental protection and energy conservation are also high on Shanghai's agenda, as well as improving the lives of ordinary citizens.

3. (SBU) Senator McCaskill emphasized that the destinies of China and the United States are interlinked and the relationship requires good communication and cooperation. She is confident that whoever becomes the next leader of the United States will

view the relationship with China as very important. The Senator described her reason for coming to China, saying that she is part of a larger delegation from Missouri that is working to establish a direct air link between China and St. Louis that will bring Chinese goods to Missouri and allow Missouri products to be shipped directly to China. Tang replied that Shanghai is also a major air traffic hub in China, and the city would be pleased to establish a trading link with states such as Missouri that are located in the central part of the United States.

SMPC Deputy Chairman Zhou Yupeng

14. (SBU) During a separate meeting and dinner hosted by Deputy Chairman Zhou, Senator McCaskill solicited his support for a direct air freight link between Shanghai and St. Louis. Zhou agreed that such a link would strengthen ties between Shanghai and the central part of the United States. Zhou suggested that the Senator raise the proposal with CAAC in Beijing, noting that CAAC is now part of the newly restructured Ministry of Transportation, which takes the lead for deciding new air routes. If the Ministry establishes the new route, Zhou said he would support the proposal within the SMPC and facilitate its implementation.

15. (SBU) Vice Chairman Zhou also provided an overview of the SMPC's work. The full SMPC of over 800 delegates meets twice a year. Most provincial congresses only meet annually, but Zhou explained that Shanghai holds a second plenary session each August. One purpose of the August session is to conduct a mid-year review of the budget and ensure that any excess funds (such as resulting from higher tax flows) are well used - typically for education, health and social security. Zhou emphasized that although the SMPC reviews the government's

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budget, it does not appropriate funds. By law, outlays for education must match the level of increase in tax revenues. Funding for social security funds must also meet specific targets. The city government has sought to strengthen its management of public funds by moving most budgetary items onto the books, as opposed to having a large number of off-line budget items.

Meeting with AmCham Shanghai

16. (SBU) At a breakfast meeting, Amcham Shanghai President Brenda Foster described the chamber's rapid growth and its strong relationship with local authorities, despite its ambiguous legal status. She noted that this sort of ambiguity was typical in China's current business climate. Many of the chamber's members were producing primarily for either the Chinese domestic market, or export to third countries, rather than export to the U.S., and were making money. Foster noted that U.S. and other foreign firms were beginning to face competitiveness issues, due to rising labor and resource costs. Although this pressure was not so serious that firms were considering leaving China, at the margins it was leading to some redirection of redirect of new investment to Vietnam, India, and other developing countries.

17. (U) Senator McCaskill has cleared this message.
JARRETT